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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

AZ CORP COMMISSION
DOCKET CONTROL

2012 MAY 30 PM 1 14

IN THE MATTER OF THE APPLICATION OF PIMA
UTILITY COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS WATER
RATES AND CHARGES FOR UTILITY SERVICE
BASED THEREON.

DOCKET NO. W-02199A-11-0329

IN THE MATTER OF THE APPLICATION OF PIMA
UTILITY COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
WASTEWATER RATES AND CHARGES FOR
UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-02199A-11-0330

**STAFF'S NOTICE OF FILING
TESTIMONY SUMMARIES**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission")
hereby files the testimony summaries of Staff witnesses Crystal S. Brown, John A. Cassidy and
Marlin Scott, Jr. in the above-referenced matter.

RESPECTFULLY SUBMITTED this 30th day of May, 2012.

Robin R. Mitchell, Staff Attorney
Scott M. Hesla, Staff Attorney
Legal Division
Arizona Corporation Commission
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Arizona Corporation Commission
DOCKETED

MAY 30 2012

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1 Original and thirteen (13) copies
2 of the foregoing were filed this
30th day of May, 2012 with:

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 Copies of the foregoing were mailed
8 and/or emailed this 30th day of May, 2012 to:

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CRYSTAL S. BROWN
SUMMARY OF TESTIMONY
PIMA UTILITY CO., INC.
Docket Nos. W-02199A-11-0329 and SW-02199A-11-0330

I will appear on behalf of the Arizona Corporation Commission Staff and will testify concerning Staff's position and recommendations regarding Pima Utility Company Inc.'s revenue requirement.

Staff recommends the following for the water and wastewater divisions of Pima Utility Company ("Pima Utility"):

Pima Utility Company – Water Division ("Pima Water" or "Company")

Staff recommends a \$457,200 or 23.12 percent revenue increase from \$1,977,627 to \$2,434,827. Staff's recommended revenue increase would produce an operating income of \$693,323 for a 7.60 percent rate of return on an OCRB of \$9,122,677.

Pima Utility – Wastewater Division ("Pima Wastewater" or "Company")

Staff recommends a \$144,486 or 4.67 percent revenue increase from \$3,096,775 to \$3,241,261. Staff's recommended revenue increase would produce an operating income of \$732,804 for a 7.60 percent rate of return on an OCRB of \$9,642,163.

**JOHN A. CASSIDY
SUMMARY OF STAFF'S
COST OF CAPITAL TESTIMONY
PIMA UTILITY COMPANY
DOCKET NOS. W-02199A-11-0329 AND SW-02199A-11-0330**

The following is a summary of the Surrebuttal testimony of Staff witness John A. Cassidy:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Pima Utility Company (“Company”) for this proceeding consisting of 35.4 percent debt and 64.6 percent equity. Except for differences in rounding, Staff and the Company are in agreement as to the appropriate capital structure.

Cost of Equity – Staff recommends that the Commission adopt a 9.4 percent return on equity (“ROE”) for the Company. Staff’s estimated ROE for the Company is based on the average of its DCF and CAPM cost of equity methodology estimates for the sample companies ranging from 9.0 percent for the discounted cash flow method (“DCF”) to 9.7 percent for the capital asset pricing model (“CAPM”).

Cost of Debt – Staff recommends that the Commission adopt a 4.25 percent cost of debt for the Company. Staff’s recommended cost of debt reflects the interest rate used by the Company’s witness, Thomas J. Bourassa, in his Rebuttal testimony on the Company’s proposed \$8,370,000 long-term debt.

Overall Rate of Return – Staff recommends that the Commission adopt a 7.6 percent overall rate of return.

Mr. Bourassa’s Testimony – The Commission should reject the Company’s proposed 10.50 percent ROE for the following reasons:

Mr. Bourassa’s Future Growth DCF estimates rely exclusively on analysts’ forecasts for earnings per share growth, and his Past and Future Growth DCF estimates are based, in part, on historical average share price appreciation. In both his Future Growth DCF and Past and Future Growth DCF models, his expected dividend growth rate (g) is overstated; if not due to a mathematical error, as Staff asserts in Surrebuttal, then by Mr. Bourassa selectively excluding the low EPS growth rates reported for Connecticut Water by the sources shown in Bourassa Direct, Schedule D-4.6. Mr. Bourassa’s CAPM estimates are derived using a forecasted risk-free rate.

MARLIN SCOTT, JR.
SUMMARY OF TESTIMONY
PIMA UTILITY COMPANY
DOCKET NOS. W-02199A-11-0329 AND SW-02199A-11-0330

WATER DIVISION

Conclusions

- A. The Pima Utility Company's ("Company") water system has a water loss of 9.25 percent, which is within the acceptable limit of 10 percent.
- B. The water system's current source and storage capacity are adequate to serve the present customer base and reasonable growth.
- C. Maricopa County Environmental Services Department reported the Company's water system had no deficiencies and is compliant with its regulations.
- D. The Company is located in the Arizona Department of Water Resources' ("ADWR") Phoenix Active Management Area and reported the Company's system is in compliance with its requirements governing water providers and/or community water systems.
- E. According to the Utilities Division Compliance Section, the Company had no delinquent Arizona Corporation Commission ("ACC") compliance issues.
- F. On March 1, 2012, the Company filed a curtailment tariff under Docket No. 12-0079 and this tariff will become effective on March 31, 2012.
- G. On March 1, 2012, the Company filed a new application under Docket No. 12-0080 in order to update its backflow prevention tariff ("BPT") using the renumbered Arizona Department of Environmental Quality ("ADEQ") Rule R18-4-215. This updated BPT will become effective on March 31, 2012.

Recommendations

- 1. Staff recommends an annual water testing expense of \$8,925 be adopted for this proceeding. Staff further recommends that \$12,157 be reclassified into the Wastewater Division's operating expense.
- 2. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a decision in this proceeding, at least seven Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff for Commission review and consideration. These BMP templates are available on the

Commission's website. The Company may submit the approved six ADWR BMPs and Public Education Program as part of the seven.

3. Staff recommends that the Company use Staff's recommended water depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category as shown in Water Division Table H-1.
4. Staff recommends approval of the proposed charges as shown in Water Division's Table I-1, with separate installation charges for the service line and meter installations.

WASTEWATER DIVISION

Conclusions

- A. ADEQ has reported the Company has no deficiencies and in compliance with ADEQ regulations.
- B. According to the Utilities Division Compliance Section, the Company had no delinquent ACC compliance issues.

Recommendations

1. Staff considers the 2.4 million gallon per day ("MGD") Water Reclamation Facility ("WRF") as having excess capacity at this time. Staff recommends that the 1.6 MGD WRF capacity is adequate and is considered used and useful treatment plant capacity in this proceeding.
2. As stated in the Water Division section of the report, Staff discovered that the Company included the Wastewater Division's recharge well water testing of \$12,157 with the potable water testing. Staff recommends that the \$12,157 be reclassified into the Wastewater Division's operating expense.
3. Staff recommends that the Company use Staff's recommended wastewater depreciation rates by individual NARUC category as shown in Wastewater Division Table G-1.